

VZCZCXYZ0000
OO RUEHWEB

DE RUEHML #1790/01 2110240
ZNR UUUUU ZZH
O 290240Z JUL 08
FM AMEMBASSY MANILA
TO RUEHC/SECSTATE WASHDC IMMEDIATE 1423
INFO RUEATRS/DEPT OF TREASURY WASHDC IMMEDIATE
RUCPDOC/USDOC WASHDC IMMEDIATE
RHHMUNA/CDR USPACOM HONOLULU HI//FPA//

UNCLAS MANILA 001790

SIPDIS

SENSITIVE

STATE FOR EAP/MTS, EAP/EP, EEB/IFD/OMA
STATE PASS EXIM, OPIC, AND USTR
STATE PASS USAID FOR AA/ANE, AA/EGAT, DAA/ANE
TREASURY FOR OASIA
USDOC FOR 4430/ITA/MAC/ASIA & PAC/KOREA & SE ASIA/ASEAN

E.O. 12958: N/A

TAGS: ECON EFIN ETRD EINV PGOV RP

SUBJECT: Davao: A Mindanao Success Story

Ref: A) Manila 1610, B) Manila 1050, C) Manila 0998

SENSITIVE BUT UNCLASSIFIED

¶11. (SBU) Summary: Davao, located in the southeastern section of Mindanao, is now one of the Philippines' major economic hubs, with rich natural resources, good infrastructure, an educated labor pool, strong local government support for business, and a pro-active business sector. The city has garnered accolades over the years for being among the Philippines and Asia's most competitive and livable cities. Davao actively promotes itself as among the country's safest cities and most Davao businesspeople and residents seem to condone alleged extra-legal methods used to maintain safety and security. The major concerns of Davao businesspeople and investors are the inadequate and unstable electric power supply and high domestic shipping costs. In spite of its accomplishments, the city still feels constrained by Mindanao's fragile peace-and-order situation. This is one in a series of cables that highlight the economic diversity of Mindanao, a region often associated with peace-and-order challenges and high poverty rates (Ref A). End Summary.

Davao: An Agricultural Center...

¶12. (U) Davao City together with the provinces of Davao del Sur, Davao del Norte, Davao Oriental, and Compostela Valley form the Davao Region in the southeastern part of Mindanao. Davao City's landscape differs from the more traditional expectations of a city in that its 2,444 square-kilometer land area -- the largest among Philippine cities -- encompasses vast tracts of agricultural (mainly fruit) plantations and timberland/forests. Agricultural production accounts for roughly 45% of economic output. Dubbed as the "fruit basket of the Philippines," Davao is a top exporter of bananas, with most exports going to Japan, China, the United States, and Korea. Fruit exporters have recently begun developing non-traditional markets for fruit in Russia and the Middle East.

...And Mindanao's Service Capital and Economic Hub

¶13. (U) Davao City has evolved into Mindanao's unofficial capital and economic hub. The service sector, mostly trade, tourism, education, and financial services, accounts for about 40% of Davao's economy. One of the country's premier convention centers and one of Mindanao's top tourism destinations, Davao City accounted for nearly 35% of Mindanao's 150,400 total foreign visitor arrivals in 2007 (mostly from the U.S., Japan, Korea, China, and Australia). The city's nearly 50 colleges and universities currently graduate a labor pool of 15,000 English-speaking students annually.

Infrastructure Matters

¶4. (U) Davao City's relatively good infrastructure and amenities have made it among the country's top business and investment sites. Davao City attracted over 4 billion pesos (\$90 million) in projects registered by the Philippine Board of Investments during 2007. The Davao International Airport -- one of the Philippines' busiest -- provides direct air linkages to Palau, Singapore, Hong Kong, and Manado, Indonesia, as well as domestic routes. It is Mindanao's premier international airport. The Davao seaport is the busiest in Mindanao and among the top five ports nationwide. Export earnings from merchandise shipped from the Davao Port reached about \$720 million in 2007, equivalent to about 30% of Mindanao's total export revenues.

Ready for the BPO Industry

¶5. (U) Davao City is aggressively promoting itself as a hub for the Business Process Outsourcing (BPO) and call center industries, capitalizing on its telecom infrastructure, excellent human resources, and cheaper wages/salaries and electricity rates, resulting in overall operating costs roughly 40% below those of Metro Manila. There are presently over 40 Business Process Outsourcing operations in Davao providing medical transcription services, software development, animation/web development, graphic design, engineering, and other call center services.

The Former Murder Capital of the Philippines

¶6. (SBU) Crime statistics confirm that Davao City is now among the safest cities in the country -- a notable achievement from its notoriety some two decades ago as the "murder capital of the Philippines" for regular insurgent assassinations and criminal violence. Today, Davao City is seen as strongly pro-business and as Mindanao's "best and safest investment haven."

¶7. (SBU) The mayor of Davao since 1989 (except for a brief stint in the Philippine Congress from 1998-2001), Davao City's Mayor Rodrigo Duterte revels in his reputation for instilling discipline and peace and order. A Time Magazine article in June 2002 dubbed the mayor "The Punisher" for his hard line, anti-criminality stance and Amnesty International and other human rights groups have raised concerns over his alleged involvement in and/or tolerance for extra-judicial measures/killings. The mayor publicly denies involvement. Most Davao businesspeople and residents are aware of allegations that their mayor oversteps the law in his pursuit of justice and peace and order. They nevertheless credit his leadership as a major factor in lowering crime rates and providing the sense of safety and security that businesses need to thrive.

Lowest Poverty Rate in Mindanao

¶8. (SBU) Although a Mindanao success story, Davao City's relative economic prosperity also illustrates that inequitable wealth distribution and development is as much a challenge within Mindanao as it is across the Philippines (Ref B). Davao City often is geographically lumped with Davao del Sur for the purpose of generating provincial-level economic statistics. In large part because of Davao City, the province of Davao del Sur has the lowest incidence of poverty (27.4%) among all of Mindanao's provinces. Davao-based officials of the Philippine government economic planning agency unofficially estimate Davao City's poverty rate at between 20%-22% of its population, well below Mindanao (46.7%) and national (32.9%) averages. With Davao City as its major economic and business hub, the Davao Region has the second highest per-capita gross domestic output among Mindanao's administrative regions (the equivalent of \$1,258 in 2006, according to the latest Philippine government statistics) and the fourth highest among the country's seventeen administrative regions.

Davao City Recognized

¶9. (U) Davao City has garnered national and international accolades

over the years for being among the Philippines' and Asia's "most competitive" and "most livable" cities. Foreign Direct Investment Magazine (a Financial Times publication), in its most recent 2007/2008 issue, ranked Davao City as tenth among Asian cities on its report on the "Asian Cities of the Future". In its latest "Philippine Cities Competitiveness Ranking Report" for 2007, the Asian Institute of Management ranked Davao City as the most competitive metro city overall, with particularly favorable scores for the lower cost of doing business, the quality of human resources, sufficient infrastructure, and the responsiveness of local government.

But Still Surrounded by Lawlessness

¶10. (SBU) The region surrounding Davao City produces over half of mineral-rich Mindanao's total mining and quarrying output. Guns still rule the Diwalwal gold fields of the nearby Compostella Valley. Davao Chamber of Commerce members who had invested in the gold fields confessed to econoffs that they routinely pay "revolutionary taxes" to the heavily-armed communist/terrorist New People's Army insurgents who haunt the region. They also predicted that the national government would be powerless to enforce a recent Supreme Court ruling which would give mining rights to the gold fields to a large Chinese company (the same Chinese company involved in the high profile broadband bribery scandal, Ref C) and allow much of the gold fields to be taken from the current small-scale mining operations. A separate report will examine mining in Mindanao in greater detail.

¶11. (SBU) Davao Chamber of Commerce businessmen also spoke of Liguasan Marsh -- swamps to the northwest of Davao City that are inhabited by criminals and virtually off limits to law enforcement officers. One of the problems cited by the Davao Chamber of Commerce was the vulnerability of the power transmission lines, which run from hydro-electric plants in northwestern Mindanao all the way to Davao City. The transmission towers are intermittently destroyed by insurgents/rebels or bandits, often to extort money. Despite aggressive efforts to differentiate Davao City from the conflict-afflicted parts of Mindanao, local officials and businesspeople lament that Mindanao's peace-and-order stigma continues to delay or discourage well-known American and European companies from investing. The business sector wants desperately for perceptions to catch up with the reality that Davao City is safe, secure, and business friendly, but the fact that it is surrounded by regions in which violence and extortion are common has made that message difficult to sell.

Additional Challenges

¶12. (U) Although Davao's power rates are about 40%-50% cheaper than average rates in the northern Philippines, the business sector is gravely concerned about the stability and adequacy of the power supply. The Davao Region already experiences intermittent power interruptions due to electricity transmission problems in the long stretch from Northern Mindanao (which has plentiful hydro-electricity) to southern Mindanao, where Davao is located. Businesspeople also predict that power shortages in Mindanao will become a serious growth constraint by 2010/2011 unless there are investments in additional energy-generation capacity, and no such investments are currently planned.

¶13. (SBU) The business sector also cites high domestic shipping costs as a serious impediment to the competitiveness of Davao's and Mindanao's local products. The Mindanao business sector has long called for a review of the Cabotage Law to spur competition and bring down shipping rates by liberalizing foreign participation in domestic coast wide trade (Ref A). However, powerful vested interests have successfully lobbied against such reforms. Several businesspeople have commented that the response to, and support from "imperial Manila" for Mindanao's issues and concerns tend to be slow and arduous, which makes an engaged and pro-active business sector essential to moving forward.

Comment

¶14. (SBU) Davao has made a remarkable turnaround in the past 20 years from the "murder capital of the Philippines" to a peaceful and secure pro-business environment that is internationally recognized as one of the most livable cities in Asia. Although the methods which seem to have been used in Davao to obtain peace are not ones we would want to see replicated, Davao serves as an example of the progress which can be made if peace can be established and good economic policies put in place.

Kenney